



**AUSTRALASIAN RAILWAY ASSOCIATION INC**

Association Number A03958 ABN 64 217 302 489

31 January 2012

Ms Lynn Race  
Council Officer Assistant  
General Purpose Standing Committee No. 3  
Legislative Council  
Parliament House  
Macquarie Street  
Sydney NSW 2000

Dear Ms Race,

**INQUIRY INTO RAIL INFRASTRUCTURE PROJECT COSTING IN NSW**

I refer to the letter from Mr Stuart Smith on 12 December 2011 regarding the questions on notice from the NSW government General Purpose committee. The Australasian Railway Association would like to thank you for the opportunity to present evidence to the committee on 6 December 2011 and to provide responses to the inquiry as stated below.

**Inquiry from The Hon. CATE FAEHRMANN:** "Do you think that the practice of the contractor bearing most of the risk has an impact on the final price quoted? Is 90 per cent too much or about right? How much is that impacting on the price of rail projects?"

Pricing a rail infrastructure project is very difficult and it doesn't take much to go wrong on a job for any potential margin to be lost. If a price is risk adjusted for a P50 then it means that there is a 50:50 chance of delivering to that price based on the level of risks identified and contractor ability to control these risks. If a proposal is priced at P90 then it means that there is a 90% chance of meeting the target. The P90 price quote is more expensive because there is more certainty and therefore most contractors will not quote at a P90 level as this would mean they would not be successful in gaining work.

As mentioned above, it can be concluded that the practice of the contractor bearing most of risk shall have an effect on the higher final quoted price and therefore it is more

appropriate to ensure risk is managed by the most appropriate party that is the party who has management control of the risks.

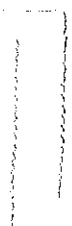
**Inquiry from The Hon. JOHN AJAKA and The Hon. CATE FAEHRMANN:** Why alliance contracts in New South Wales involve so much higher clients cost? / What are the Australasian Railway Association's comments or suggestions toward the Ernst and Young's report on the infrastructure cost benchmarking?

This report is complex and detailed in comparing jurisdictions on pricing and the ARA understands this report to be the most comprehensive attempt to compare rail infrastructure costs across jurisdictions to-date. Having said this, it would be possible to build on this report and the ARA would be very keen to see a more robust piece of work undertaken over a time series. If this was done, then it would be possible and beneficial to develop a project benchmark for comparative purposes.

Regarding the specific tunnelling cost in different soils (e.g. Sydney sandstone and sandy soil in Western Australia), unfortunately there is not enough data to put before the specific summary for this inquiry. However the ARA has been informed that sandstone is an easier material than say hard rock is to tunnel through and should therefore be less costly. However the topography of Sydney means that generally projects require more tunnelling than in other jurisdictions. Also some projects in the past have required tunnelling through materials other than sandstone and therefore this saving does not occur in those situations.

Should you have any further inquiries relating to this matter, please do not hesitate to contact me via email [ara@ara.net.au](mailto:ara@ara.net.au) or phone

Yours sincerely



Bryan Nye  
Chief Executive Officer  
Australasian Railway Association